

Message Text

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ACTION COME-00

INFO OCT-01 NEA-10 ADP-00 EB-11 RSR-01 RSC-01 /024 W

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R 261155Z AUG 73

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 4747

INFO AMCONSUL DHAHRAN

AMEMBASSY BEIRUT

AMEMBASSY TEHRAN

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DEPT PASS COMMERCE FOR OFFICE OF EXPORT DEVELOPMENT

E.O. 11652: N/A

TAGS: BEXP, SA

SUBJ: NEW JIDDA AIRPORT CONTRACT

SUMMARY. BROWN & ROOT/ZACHRY HAS WITHDRAWN FROM SUBJECT BIDDING COMPETITION, BUT MIGHT RECONSIDER IF MORE FLEXIBLE BIDDING TERMS ALLOWED. IN LAST EFFORT TO SALVAGE U.S. PARTICIPATION IN COMPETITION, SUGGEST BROWN & ROOT/ZACHRY AND BOEING/MORRISON KNUDSON BE URGED TO PERSIST.

ACTION REQUESTED: I) INFO ON ACTUAL STATUS OF B/MK PARTICIPATION; II) BOTH ABOVE CONSORTIA BE CONTACTED AND URGED REMAIN IN BIDDING. DND SUMMARY.

1. EMBASSY HAS LEARNED THAT BROWN & ROOT HAS CABLED SAC CIVIL AVIATION DEPT THAT THE BROWN & ROOT/ZACHRY CONSORTIUM IS WITHDRAWING FROM COMPETITION FOR AIRPORT CONTRACT. IN SEPARATE CABLE TO LOCAL AGENT (BUGSHAN) E.P. SWILLIVAN OF BROWN & ROOT GAVE AS REASONS: "BID DOCUMENTS LEAVE LITTLE OR NO MANEUVERABILITY FOR CONTRACTOR TO GIVE BETTER JOB AT CHEAPER PRICE" AND THAT MARGIN OF PROFIT CONSIDERING MAGNITUDE OF PROJECT AND CONTRACTOR'S RISKS WOULD BE "LESS THAN MARGINAL." HOWEVER, BROWN & ROOT IS ATTEMPTING TO CONTACT CIVIL AVIATION DIRECTOR GENERAL

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MAHDI IN THE U.S. TO STATE THAT THEY WOULD RECONSIDER

PARTICIPATION IF "ADDENDUM WERE ADDED TO CHANGE THE PRESENT BID REQUEST TO REFLECT A LUMP SUM COST FOR ALL MATERIAL, EQUIPMENT AND SERVICES...BROUGHT INTO SAUDI ARABIA, AND REIMBURSABLE COST FOR ALL LOCAL LABOR, MATERIAL AND COSTS INCURRED INSIDE SAUDI ARABIA."

2. WOULD APPRECIATE INFO ON LATEST STATUS OF BOEING/MORRISON KNUDSON PARTICIPATION IN BIDDING.

3. REQUEST USDOC MAKE FURTHER EFFORT TO INSURE AMERICAN COMPETITION IN THIS HIGH-PRESTIGE PROJECT. TO THIS END OFFER FOLLOWING REVIEW AS TALKING POINTS FOR B&R/ZACHRY AND BOEING/M/K.

A. ONE OF THE ITALIAN COMPETITORS HAS ALREADY REQUESTED TWO-MONTH EXTENSION OF BIDDING DEADLINE. IF A FE MORE REQUESTS WERE RECEIVED EXTENSION WOULD ALMOST SURELY BE GRANTED.

B. EMBASSY WILL ALSO ATTEMPT CONVINCE SAG OF IMPRACTICALITY OF LUMP SUM CONTRACT WITH NO ESCALATION CLAUSE FOR UNFORESEEN EVENTS. HOWEVER, EVEN IF SUCH MODIFICATION NOT FORTHCOMING, COMPANIES SHOULD BE WARNED AGAINST OVERLY LEGALISTIC READING OF FIXED SUM CONDITION. SAUDIS NEED TO ADVERTISE BUDGETARY CONSERVATISM FOR POLITICAL REASONS, AND WISH TO AVOID PRICE DICKERING OVER NUTS AND BOLTS. HOWEVER, SAG HAS PROVEN FAIR AND REASONABLE IN SUCH MATTERS BEFORE, AND IN ANY EVENT DESIRES A TOP QUALITY OPERATIONAL AIRPORT, NOT HALF-FINISHED MESS LEFT BY BANKRUPTED CONTRACTOR. EVEN IF FORMAL LUMP SUM CONTRACT SIGNED, CONTRACTOR COULD EXPECT POSSIBILITY OF AD HOC PAYMENT ADJUSTMENTS IN EVENT OF SERIOUS UNFORESEEN COST CHANGES NOT THE FAULT OF CONTRACTOR.

C. SAG HAS DEMONSTRATED STRONG PREFERENCE FOR AMERICAN COMPETITION IN THIS BIDDING, AND CAN BE EXPECTED TO COOPERATE FULLY IN GRANTING MAXIMUM REASONABLE CONSIDERATION TO U.S. FIRMS. FURTHERMORE, U.S. SHOULD BE ABLE DEMONSTRATE MORE COMPETITIVE POSTURE IN THIS FIRST LARGE CONTRACT WITH PURELY AMERICAN SPECIFICATIONS SINCE DELIMITED OFFICIAL USE

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VALUATION OF DOLLAR.

D. THIS IS NOT THE ONLY UPCOMING OPPORTUNITY. JIDDA AIRPORT CONTRACT WOULD PROVIDE FOOT IN THE DOOR FOR SUBSEQUENT RIYADH AIRPORT (WHICH WOULD DOVETAIL NICELY WITH COMPLETION OF JIDDA AIRPORT), VARIOUS REGIONAL AIRPORTS AND VARIETY OF OTHER HEAVY CONSTRUCTION PROJECTS WHICH WILL BE FORTHCOMING.

E. U.S. COMPANIES NEW TO SUCH PROJECTS HERE MAY NOT BE
AWARE OF VARIOUS POSSIBILITIES FOR REDUCING COSTS AND
IMPROVING PROFIT POTENTIAL WHICH MIGHT BE NEGOTIATED
BEFORE FINAL CONTRACT IS SIGNED. PRIME EXAMPLE IS
POSSIBILITY OF ESTABLISHING PRIVATE PORT NORTH OF JIDDA
WHICH WOULD AVOID JIDDA PORT BOTTLENECKS, DEMURRAGE COSTS
AND MINIMIZE CUSTOMS FORMALITIES.
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